Euro Summit

Brussels, 12 July 2015

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EUROSUMMIT

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The Euro Summit stresses the crucial need to rebuild trust with the Greek authorities as a pre-requisite for a possible future agreement on a new ESM programme. In this context, the ownership by the Greek authorities is key, and successful implementation should follow policy commitments.

A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF[1]. This is a precondition for the Eurogroup to agree on a new ESM programme. Therefore Greece will request continued IMF support (monitoring and financing) from March 2016.

Given the need to rebuild trust with Greece, the Euro Summit welcomes the commitments of the Greek authorities to legislate without delay a first set of measures. These measures, taken in full prior agreement with the Institutions, will include:

[1] ESM Treaty, recital (8).

by 15 July

- the streamlining of the VAT system and the broadening of the tax base to increase revenue;
- upfront measures to improve long-term sustainability of the pension system as part of a comprehensive pension reform programme;
- the safeguarding of the full legal independence of ELSTAT;
- full implementation of the relevant provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, in particular by making the Fiscal Council operational before finalizing the MoU and introducing quasi-automatic spending cuts in case of deviations from ambitious primary surplus targets after seeking advice from the Fiscal Council and subject to prior approval of the Institutions;

by 22 July

- the adoption of the Code of Civil Procedure, which is a major overhaul of procedures and arrangements for the civil justice system and can significantly accelerate the judicial process and reduce costs;
- the transposition of the BRRD with support from the European Commission.

Immediately, and only subsequent to legal implementation of the first four above-mentioned measures as well as endorsement of all the commitments included in this document by the Greek Parliament, verified by the Institutions and the Eurogroup, may a decision to mandate the Institutions to negotiate a Memorandum of Understanding (MoU) be taken. This decision would be taken subject to national procedures having been completed and if the preconditions of Article 13 of the ESM Treaty are met on the basis of the assessment referred to in Article 13.1.

In order to form the basis for a successful conclusion of the MoU, the Greek offer of reform measures needs to be seriously strengthened to take into account the strongly deteriorated economic and fiscal position of the country during the last year. The Greek government needs to formally commit to strengthening their proposals in a number of areas identified by the Institutions, with a satisfactory clear timetable for legislation and implementation, including structural benchmarks, milestones and quantitative benchmarks, to have clarity on the direction of policies over the medium-run. They notably need, in agreement with the Institutions, to:

- carry out ambitious pension reforms and specify policies to fully compensate for the fiscal impact of the Constitutional Court ruling on the 2012 pension reform and to implement the zero deficit clause or mutually agreeable alternative measures by October 2015;
- adopt more ambitious product market reforms with a clear timetable for implementation of all OECD toolkit I recommendations, including Sunday trade, sales periods, pharmacy ownership, milk and bakeries, except over-the-counter pharmaceutical products, which will be implemented in a next step, as well as for the opening of macro-critical closed professions (e.g. ferry transportation). On the follow-up of the OECD toolkit-II, manufacturing needs to be included in the prior action;
- on energy markets, proceed with the privatisation of the electricity transmission network operator (ADMIE), unless replacement measures can be found that have equivalent effect on competition, as agreed by the Institutions;
- on labour markets, undertake rigorous reviews and modernisation of collective bargaining, industrial action and, in line with the relevant EU directive and best practice, collective dismissals, along the timetable and the approach agreed with the Institutions. On the basis of these reviews, labour market policies should be aligned with international and European best practices, and should not involve a return to past policy settings which are not compatible with the goals of promoting sustainable and inclusive growth;

- adopt the necessary steps to strengthen the financial sector, including decisive action on non-performing loans and measures to strengthen governance of the HFSF and the banks, in particular by eliminating any possibility for political interference especially in appointment processes.

On top of that, the Greek authorities shall take the following actions:

- to develop a significantly scaled up privatisation programme with improved governance; valuable Greek assets will be transferred to an independent fund that will monetize the assets through privatisations and other means. The monetization of the assets will be one source to make the scheduled repayment of the new loan of ESM and generate over the life of the new loan a targeted total of EUR 50bn of which EUR 25bn will be used for the repayment of recapitalization of banks and other assets and 50 % of every remaining euro (i.e. 50% of EUR 25bn) will be used for decreasing the debt to GDP ratio and the remaining 50 % will be used for investments.

  This fund would be established in Greece and be managed by the Greek authorities under the supervision of the relevant European Institutions. In agreement with Institutions and building on best international practices, a legislative framework should be adopted to ensure transparent procedures and adequate asset sale pricing, according to OECD principles and standards on the management of State Owned Enterprises (SOEs);

- in line with the Greek government ambitions, to modernise and significantly strengthen the Greek administration, and to put in place a programme, under the auspices of the European Commission, for capacity-building and de-politicizing the Greek administration. A first proposal should be provided by 20 July after discussions with the Institutions. The Greek government commits to reduce further the costs of the Greek administration, in line with a schedule agreed with the Institutions;

- to fully normalize working methods with the Institutions, including the necessary work on the ground in Athens, to improve programme implementation and monitoring. The government needs to consult and agree with the Institutions on all draft legislation in relevant areas with adequate time before submitting it for public consultation or to Parliament. The Euro Summit stresses again that implementation is key, and in that context welcomes the intention of the Greek authorities to request by 20 July support from the Institutions and Member States for technical assistance, and asks the European Commission to coordinate this support from Europe;
- With the exception of the humanitarian crisis bill, the Greek government will reexamine with a view to amending legislations that were introduced counter to the February 20 agreement by backtracking on previous programme commitments or identify clear compensatory equivalents for the vested rights that were subsequently created.

The above-listed commitments are minimum requirements to start the negotiations with the Greek authorities. However, the Euro Summit made it clear that the start of negotiations does not preclude any final possible agreement on a new ESM programme, which will have to be based on a decision on the whole package (including financing needs, debt sustainability and possible bridge financing).

The Euro Summit takes note of the possible programme financing needs of between EUR 82 and 86bn, as assessed by the Institutions. It invites the Institutions to explore possibilities to reduce the financing envelope, through an alternative fiscal path or higher privatisation proceeds. Restoring market access, which is an objective of any financial assistance programme, lowers the need to draw on the total financing envelope. The Euro Summit takes note of the urgent financing needs of Greece which underline the need for very swift progress in reaching a decision on a new MoU: these are estimated to amount to EUR 7bn by 20 July and an additional EUR 5bn by mid August.

The Euro Summit acknowledges the importance of ensuring that the Greek sovereign can clear its arrears to the IMF and to the Bank of Greece and honour its debt obligations in the coming weeks to create conditions which allow for an orderly conclusion of the negotiations. The risks of not concluding swiftly the negotiations remain fully with Greece. The Euro Summit invites the Eurogroup to discuss these issues as a matter of urgency.

Given the acute challenges of the Greek financial sector, the total envelope of a possible new ESM programme would have to include the establishment of a buffer of EUR 10 to 25bn for the banking sector in order to address potential bank recapitalisation needs and resolution costs, of which EUR 10bn would be made available immediately in a segregated account at the ESM.

The Euro Summit is aware that a rapid decision on a new programme is a condition to allow banks to reopen, thus avoiding an increase in the total financing envelope. The ECB/SSM will conduct a comprehensive assessment after the summer. The overall buffer will cater for possible capital shortfalls following the comprehensive assessment after the legal framework is applied.

There are serious concerns regarding the sustainability of Greek debt. This is due to the easing of policies during the last twelve months, which resulted in the recent deterioration in the domestic macroeconomic and financial environment. The Euro Summit recalls that the euro area Member States have, throughout the last few years, adopted a remarkable set of measures supporting Greece’s debt sustainability, which have smoothed Greece’s debt servicing path and reduced costs significantly.

Against this background, in the context of a possible future ESM programme, and in line with the spirit of the Eurogroup statement of November 2012, the Eurogroup stands ready to consider, if necessary, possible additional measures (possible longer grace and payment periods) aiming at ensuring that gross financing needs remain at a sustainable level. These measures will be conditional upon full implementation of the measures to be agreed in a possible new programme and will be considered after the first positive completion of a review.

The Euro Summit stresses that nominal haircuts on the debt cannot be undertaken.

The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and in a timely manner.

Provided that all the necessary conditions contained in this document are fulfilled, the Eurogroup and ESM Board of Governors may, in accordance with Article 13.2 of the ESM Treaty, mandate the Institutions to negotiate a new ESM programme, if the preconditions of Article 13 of the ESM Treaty are met on the basis of the assessment referred to in Article 13.1.

To help support growth and job creation in Greece (in the next 3-5 years) the Commission will work closely with the Greek authorities to mobilise up to EUR 35bn (under various EU programmes) to fund investment and economic activity, including in SMEs. As an exceptional measure and given the unique situation of Greece the Commission will propose to increase the level of pre-financing by EUR 1bn to give an immediate boost to investment to be dealt with by the EU co-legislators. The Investment Plan for Europe will also provide funding opportunities for Greece.